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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Docket No. R97-1

POSTAL RATE AND FEE CHANGES

DIRECT TESTIMONY OF

GODFRED OTUTEYE

ON BEHALF OF

ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

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DIRECT TESTIMONY OF GODFRED OTUTEYE

PERSONAL AND BUSINESS BACKGROUND

I am the Executive Vice President and Chief Operating Officer of Money Mailer, Inc. I joined the company in February, 1992. Previously I served as the Chief Operating Officer for DATADESK, a leading edge keyboard and input device manufacturer. I have an MBA from the University of Southern California and a BA in applied mathematics from Harvard University. Money Mailer is a member of the Alliance of Independent Store Owners and Professionals (AISOP) and a number of our customers are also AISOP members.

Money Mailer is a privately owned company started by our founder, Kris Friedrich, in 1979. Our company's vision and mission is:

To help businesses get and keep more customers
and to help consumers save money every day.

Money Mailer does business in the United States, Canada, and other nations. Our corporate headquarters are in Garden Grove, California. We have approximately 250 franchisees or licensees that provide direct mail advertising services to our 30,000 advertising customers.

Money Mailer's franchise network currently covers 30% of the United States. Locally zoned saturation mail advertising through a shared mail coupon envelope is the primary business of our company and our franchisees. We also offer solo mail advertising services and a program targeted to new movers.

PURPOSE AND SCOPE OF TESTIMONY

I am testifying on behalf of AISOP to explain the importance of affordable saturation mail advertising to small businesses. Over 90 percent of our customers are small businesses whose ability to get started, survive, and grow depends on reaching consumers residing in their local market area. In addition, most of our franchisees are themselves small

businesses. Our experiences in working with our small business customers are not unique, but are representative of hundreds of thousands of similar small businesses throughout the country.

Affordable postal rates are a key factor for both our own business and those of our customers. For this reason, on behalf of AISOP, Money Mailer, our 250 franchisees, and our 30,000 customers, we support the rates proposed by the United States Postal Service for Enhanced Carrier Route (ECR) saturation mail and the reduction in the pound rate for that type of mail. My testimony addresses the following matters from a marketplace perspective:

1. The nature and needs of small business advertisers.
2. The benefits of saturation mail advertising services in meeting those needs.
3. The price sensitivity of ECR saturation mail, both from the perspective of small business advertisers and our own business.
4. The benefits of affordable saturation mail rates to mailers, advertisers, and the Postal Service in generating not only saturation mail volumes but other mail volumes as well.
5. The marketing disincentive of the current high ECR saturation pound rate, and the benefits of the proposed pound rate in stimulating new volumes and postal revenue.

**AFFORDABLE SATURATION MAIL RATES
HELP SMALL BUSINESS ADVERTISERS**

I understand that one of the questions the Commission asks in considering a Postal Service proposal is, "How will this affect Aunt Minnie?" I passionately believe that companies like Money Mailer, that provide saturation shared mail services, are helping America's small firms get in business and compete. These businesses are the Aunt Minnies of America.

More than 90% of our customers are "mom and pop" businesses. Many are sole proprietors or tradespeople who make a living by offering services to customers. These advertisers include professionals like realtors and dentists and service providers like manicurists, seamstresses, snow removal contractors, and chimney sweeps. The "gross sales" of these small businesses are the equivalent of wages. The manicurist that does nails for \$20 per service thinks long and hard about paying \$350 to mail a coupon.

Our retail customers usually have a single store and employ fewer than 10 employees. These neighborhood businesses typically draw on customers in a three to five mile radius from their business. Most print and electronic media cover too broad a territory, and cost too much, to be effective for these stores.

Because our customers need to reach consumers who live near their businesses, we divide our advertising coverage into zones averaging about 10,000 households. We work closely with our customers to tailor their advertising coverage to their individual marketing areas and their limited advertising budgets. Some customers may mail to the same zones every time, while others, especially those with the most limited budgets, may rotate single-zone mailings among different zones over the course of the year, or even mail only once a year to one or two zones. The average buy for a Money Mailer customer is 1.7 zones, or about 17,000 households, mailed two or three times a year. Our average customer's annual advertising expense with Money Mailer's shared mail envelope program is \$1,200 to \$1,700. That may not seem like a lot of money in the context of these proceedings, but it is often a major financial decision for our customers.

The best way to show how Money Mailer and the Postal Service work together to help small business is by example:

Affordable Saturation Mail Can Help a Small Business Get Started

Closet Encounters started in the Washington, DC area as a new concept business selling closet organizing products and services. The entrepreneur who started the business had invested a lot of money in a beautiful new store. But when our Money Mailer sales representative called on the store, there were virtually no customers.

Like many small business owners, this entrepreneur had put everything he had into opening a business but had little capital left for promotion and advertising. Although this new business owner knew he had to do something to bring in customers, price and terms were of critical importance. To help him, Money Mailer allowed the Closet Encounters customer to purchase a coupon ad with installment payments. His coupon brought customers into the store and helped his business "take off." This customer became a regular advertiser. To attract and retain many of our customers, we offer term payments. Often, we must discount our prices. We truly are partners in our customers' success.

Many Small Businesses Need Mail Advertising to Survive

Many of our customers could not stay in business without mail advertising. The pizza business, for example, depends on coupons to generate customer calls and sales. The independent fast food, family restaurant, and carry out food businesses also depend on Money Mailer and the Postal Service to survive. But these businesses are all intensely cost conscious. Because they compete with large concerns that pay a much lower percentage of overall expenses to advertise (due to the efficiencies of more locations and greater buying power), the independent food business is one of our most penny pinching customers.

We have a family owned carry out and delivery Chinese restaurant that is typical of this advertising customer. Everyone in the family works in the restaurant. The owners, and their employees, do not speak English as a first language. All of their business comes in by

telephone. Because their menu is extensive, customers need to have the menu in front of them to place an order. We recommend to advertisers like this that selections be numbered to overcome language barriers and make it easier to take orders.

This restaurant needs to get menus in customers' hands to survive. But because cost is critical, the business cannot afford to mail its full-size 8½" x 11" menu in every coupon envelope. To stretch their advertising dollars as far as possible, they do a coupon size ad with some menu features into one zone and do a full page 8½" x 11" menu into another. They stagger the zones every mailing to get maximum coverage. As a service to this customer, Money Mailer also does overrun printing so that the restaurant can put copies of its menu in the bag with each order.

This customer would like to send its full menu into two zones with each mailing, but cannot afford to. This customer simply will not pay a cent more to advertise. If our prices go up, the response of customers like this is to cut back on their ads or to stop advertising all together.

Affordable Saturation Mail Can Help Small Businesses Grow

A new franchise business named Furniture Medic used Money Mailer to open its business. Furniture Medic is a mobile unit service that comes to consumers' homes to fix burn holes in carpet, repair damaged linoleum or countertops, reinforce broken chair legs, etc. The owner of a Furniture Medic franchise worked with a Money Mailer sales representative to pick the most promising territory and zone for starting his business. The business succeeded because the advertiser offered a great service and because Money Mailer helped him select the most productive zones to get started. The owner has now expanded his fleet by adding new mobile units and works closely with us to open and develop new territory.

Money Mailer Does Everything for the Small Business Customer but Deliver the Mail

Most small businesses lack the resources for a marketing or advertising department, and while they are good at running their businesses, most lack marketing expertise. Money Mailer fills this need. We act as the printer, designer, marketing department, and often financial analyst and consultant for our customers.

Our franchisees work with advertisers to design and proof the ad. This includes making suggestions on the products and services to offer. Sometimes, our efforts can help turn a business around. This happened when a little upholstery shop owner complained to his Money Mailer sales representative that his coupon did not work and he could not afford to do more advertising. Our sales representative analyzed the ad and decided the shop needed a coupon with more than one promotion. The ad had been featuring big ticket items that only interested a few customers. He needed a low price item that could draw more customers.

In the course of discussing the shop owner's business needs and problems, our representative learned that the upholsterer had numerous bolts of remnant fabric left over from prior jobs. Working together, they designed an offer where the shop could reupholster dining room chairs for \$30 a chair--fabric and service included! Future coupons included this good value, low ticket item as well as another service. This ad has been working beautifully. The upholsterer, who is a Korean immigrant to this country, is typical of many of the first generation entrepreneurs who rely on Money Mailer and the Postal Service to help them earn a living or start a business to support themselves and their families.

There are other national, regional, or local businesses that provide shared mail programs or coupon books that are distributed other than by the U.S. mail. We want and need to offer more in price and service to keep and retain our customers. An example of

one of the initiatives we launched to do more for our small business customers is our H.O.T! (Home Office Travel) Coupons™ internet site. In 1996, each customer that bought a coupon in our shared mail program was given an opportunity to have its coupon displayed on our internet page for free. We are constantly striving to come up with new ways to give value to our customers to keep their business. We invested a lot to develop and promote our internet site and gave it to our advertisers. To keep and retain customers in a competitive environment, Money Mailer, like our advertising distribution competitors, has to do more and charge less.

PRICE SENSITIVITY OF SATURATION MAIL

The price sensitivity of our saturation mail business is due to several factors.

For our small business customers, the amount they can spend on advertising is constrained by their limited budgets. Most small businesses are already paying relatively more to reach their customers than their big business competitors. An independent pizza parlor might spend twice as much, as a percentage of overall sales, than its national chain competitor. Small businesses are particularly prone to respond to a price increase by cutting back, or eliminating, their advertising.

For our national and regional business customers, competition from other media plays a much larger role. Although national and regional businesses appreciate the ability of saturation mail to reach every home in a geographic area, these businesses have the economic bargaining power and number of geographic locations to make it cost-effective to use other mass media. Big advertisers have a variety of print and electronic media choices. Larger companies usually work with fixed media budgets and demand stable prices and discounts over an agreed to (contractual) period of time. When postal rates go up, the response of our non-postal competitors is to offer these big advertisers even better deals and

deeper discounts. To get and hold the business of national and regional businesses, we have to offer much more attractive pricing. These are the customers that are very difficult for Money Mailer and its franchisees to attract or retain because postal distribution is generally more expensive than other mass media.

From Money Mailer's standpoint, we have learned from bitter experience that we cannot absorb or pass on large postal rate increases. The 14.4% postal rate increase of January, 1995 had a devastating affect on our company and our system.

Between 1992 and 1995, Money Mailer was on track to see its business double. The large and unexpected increase in saturation mail rates of over 14% in January, 1995 resulted in a big step backward for our company in number of franchisees and mail volumes. Volumes for our saturation shared mail envelopes are lower for 1997 than they were in 1994.

In human terms, the 1995 postage rate increase hurt many of the small businesses that make up our franchise system. Under our system, the responsibility for paying the 14.4% postage rate increase was passed on to our franchisees.

Most of the franchisees in the Money Mailer system are individuals or husband and wife teams. A typical franchisee might mail six or seven times a year into four or five zones of 10,000 homes each. Our franchisees have to find and serve a large number of customers to make their business a success.

As of 1994, a typical franchisee in our system might do \$200,000 in gross sales per year. When postal rates went up by over 14% in January, 1995, this added an additional \$5,000 in overhead to a typical franchisee. This may not seem like a lot of money in the world of postal finance, but it was the straw on the camel's back for many people in our system.

The shared mail coupon business is very price competitive. In the past five years, prices have not increased. In general, they have fallen by 10% to 20%. Most franchisees could not pass on increased postage costs to their customers. Our franchisees had to swallow all or part of the increased postage rates. Many of our franchisees found their gross profits cut by almost 50% in 1995. Throughout 1995 and 1996, we saw franchisees cut back on areas mailed and number of mailings. Some could not survive. They quit!

In 1995 and 1996, Money Mailer experienced its highest franchisee failure rate. Many left our system. Most of our franchisees tried to make up for their lost profits with higher revenues by selling more coupons. To fill the envelope to the break point, most franchisees found they had to offer deep discounts or special pricing to sell the last spots in the envelope. Sales beyond the break point often seemed counterproductive to our franchisees because of the high pound rate.

Prior to reclassification, there was tremendous interest and pressure in the system to switch our distribution out of the mail. Some franchisees wanted us to explore ways to eliminate high postal costs through newspaper distribution or private delivery. We believe our advertisers get the best response rate when our envelopes are sent in the mail. But concerns about unpredictable or unreasonable postal rate increases keep us mindful of other options.

Our company name and logo makes it clear that we are committed to distributing our product through the United States Postal Service. We show this on our letterhead:

MONEY MAILER®
SUCCESS IS IN THE MAIL.

We do not want to switch our envelope distribution to newspapers or private delivery. But this business is tremendously price competitive. Most of our sales are to small businesses that appreciate our ability to provide a turnkey product that is targeted to their

geographic market. In major metropolitan areas we have numerous competitors offering this type of service. Our competitors might include other national or local coupon envelope or shared mail programs that distribute by the United States Postal Service. Our mail competitors share the same high fixed costs we pay to be part of the mail stream. We also face fierce competition from daily newspapers, weekly newspapers, and free distribution papers like shoppers that may be distributed by mail, private delivery, or in racks. These papers often sell "run of press" coupons in a booklet, magazine, or tabloid that is inserted in the paper. Because many of these papers have very low distribution costs, they can always beat us in price.

This is one of the reasons it is often impossible to pass on cost increases to our customers. When postal costs go up, our non-postal competitors know this is the time to fight hardest for the business.

REASONABLE RATES FOR ECR SATURATION MAIL BOOST OTHER MAIL VOLUMES

Money Mailer's saturation shared mail coupon envelope program is our core business. It gives local businesses a cost-effective way to do mass media advertising to geographic zones near their business.

Money Mailer has developed and is promoting two other advertising programs. We have a "new mover" program called "Home At Last®" that targets the approximately 15% of new households that move into a community each year. The Home At Last® envelope contains advertising of particular interest to people that just moved like cable TV and curtain and carpet installation as well as general advertising from businesses that are hoping the new resident might "try me" first. Because of the highly targeted nature of this mail, the price for participation in this envelope is much higher than our saturation mailings. To give the envelope the greatest value and impact possible, our advertisers are all requested to give

consumers a substantial deal or discount. This gives our Home At Last® envelope the same appeal to consumers as a visit from the neighborhood Welcome Wagon.

Another new mail program we offer is our solo direct mail sent either as saturation to all households or to a customer mailing list. The advertiser's goals in terms of timing of the ad, and impact, might be such that a solo saturation mailing makes more sense (and is worth the higher cost) than buying a coupon in our shared mail envelope. The announcement of a new store opening, or a special seasonal promotion, would present timing concerns that could not be accommodated by our shared mail program. Increasingly, our solo mailings are not done on a saturation mail basis but to a mailing list that is created by Money Mailer on a custom basis for each advertiser to cultivate and develop "loyal" customers.

As part of our consultative selling approach, Money Mailer explains to our advertisers that 80% of the revenues for a typical retail or service business comes from 20% of its customers. If a retailer can identify these "loyal" customers, and develop special marketing approaches and mailings to them, it can increase the business done by existing "loyals" and increase their number.

In some businesses, it is easy to identify loyal customers. The barber, veterinarian, and manicurist keep records or appointment books. These can be used to create a mailing list of "loyal" customers. For other businesses, we can compile this information through credit card receipts, and customer recognition recommendations that we make to produce a list of "loyal" customers. Because the response rate from mailings sent to "loyal" customers is higher than the response rate of a general, mass media type ad sent in our shared mail envelope, an advertiser can justify higher postage and printing costs for solo mailings to loyal

customers. The development and maintenance of a customized mailing list for our advertisers is one of the value added services Money Mailer offers to its customers.

Although our new mover and solo mail programs are still in their infancy, they have generated almost \$2,000,000 in postage revenue for the United States Postal Service in the last two and a half years. The success and growth of these programs depend in large part on the success and growth of our shared mail program. Most of our customers see the coupon sent in our shared mail envelope as their primary advertising vehicle to reach the mass audience of consumers. When our customers have success in our shared mail program, they are more receptive to trying other forms of direct mail like the new mover and solo programs. Saturation mailings are what turn potential consumers into customers of a business. If our advertisers do not have an affordable way to bring in new customers, they are not willing to spend more ad dollars to reach a more limited audience--even where it is a very promising audience like new movers or loyal customers.

Our development and promotion of the new mover and solo mail programs are examples of Money Mailer's belief that the United States Postal Service is the best way for local businesses to get and keep customers. With reasonable and stable rates for our saturation shared mail program, we can attract and sell advertisers on the mail as a media. This brings additional revenues to the United States Postal Service in the form of higher value, higher rate postal products. For example, mailings to loyal customers may be sent by first class letters or postcards. The type of mail sent depends on the volume and density of the mailing list. A small business might send as few as 50 first class pieces. For a bigger business, or a business with a large customer base, a mailing list of loyal customers might qualify for high density ECR.

We believe there is tremendous opportunity for growth for Money Mailer both geographically in the United States and through the breadth of postal products we offer. The key to our success and growth, and for new volumes for the United States Postal Service, remains affordable postage rates for ECR saturation mail.

**A REDUCTION IN THE PRESENT POUND RATE
WILL BE BENEFICIAL FOR OUR MAILERS
AND THE POSTAL SERVICE**

The present pound rate acts as a disincentive for our franchisees to sell more, or heavier, pieces into our shared mail envelopes. The impact of the present pound rate on our business is like a high marginal tax rate. It does not make economic sense for our company and I do not believe it makes good economic sense for the United States Postal Service.

To understand how this works, let me explain our business. For a franchisee in our system to do well, he or she strives to "fill" the envelope to the pound rate break point. The franchisee might be able to fill part of the envelope with local businesses that will buy coupons "at retail." It is unlikely, however, that remaining sales, particularly sales to bigger accounts, can be made at retail prices.

This is a situation where the pound rate is a real hurdle for our business. If a franchisee has five zones, and the envelope is under the pound rate break point in some of these zones, the franchisee really has an incentive to offer deals to fill those envelopes. But if these advertisers want to cover zones where the envelope is almost full, the franchisee may find he or she is working too hard to make a sale that only benefits the Postal Service.

Other problems we face with the present pound rate are the high costs associated with putting bigger pieces or heavier pieces in our envelope. Our standard coupon weighs a tenth of an ounce. This can have sufficient impact for most of our customers. But our

customers would like it if we could offer more varied ads at reasonable prices. A take-out and delivery restaurant might want to reproduce its menu. This could weigh as much as four or five coupons. If our envelope is underweight, we can do this and offer the customer a deal. If the envelope goes overweight or the customer wants multiple zones, we have a pricing dilemma. Similarly, Money Mailer sells a magnet ad that can be placed on the refrigerator. This ad is very popular with our customers. But the magnet weighs four times more than a coupon. This gets our mailings into the pound rate real fast.

Our pricing dilemmas are compounded when we have different franchisees wanting to do cross-sales with other franchisees in our network. This should be a way for Money Mailer to reach more customers and serve more regional or national businesses. This should be a win-win proposition for Money Mailer and the United States Postal Service. But the high pound rate makes it too much trouble in too many circumstances for our franchisees to set prices that make sense. I am aware of many franchisees that basically "stop selling" when they near a full envelope. It is simply too much work for too little benefit to sell more ads.

The present pound rate makes it harder for Money Mailer and its franchisees to expand our market coverage. It would be easier to provide our standard coupon service for local businesses if we could also do larger and more varied ads for businesses in that community, and national concerns. Our ability to offer the prices demanded by big business for their media is sorely limited by the present pound rate.

My experience with Money Mailer's business, and that of our franchisees, causes me to conclude that the present high pound rate is repressing the Postal Service's pound rate revenues. I believe the relief in the pound rate proposed by the United States Postal Service will reduce the disincentives found in the present pricing structure and will

ultimately result in our generating more mail pieces and pound rate volumes, and revenues, for the Postal Service.

CONCLUSION

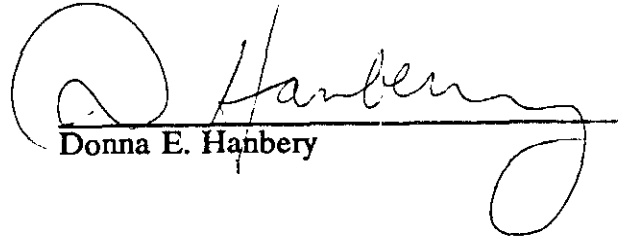
Money Mailer's core business is to help local businesses get and keep more customers. The Postal Service has a delivery network in place to help us connect local merchants to the consumers in their neighborhood. The stable rates proposed by the Postal Service for our saturation mailings will allow us to continue to serve our existing 30,000 customers. It will also allow new and existing franchisees to brave the risks of expanding their business.

Currently, we are serving less than one-third of the businesses we could reach in this country. Reasonable rates will allow us to open new territory with our shared mail programs and will create additional mail revenues for Money Mailer and the United States Postal Service through our new mover and solo direct programs. Most importantly, these rates will help us, and the United States Postal Service, do more to help our small business customers. It will be more affordable for the family owned restaurant to mail its entire menu. Our franchisees, and our customers, will not see a rate hike that makes them say, "I can't afford the mail."

The decision on the rates Money Mailer and its customers will pay is in the hands of this Commission. On behalf of shared mail businesses like Money Mailer, and the thousands of small businesses we serve, I hope I have given you some reasons to approve the United States Postal Service proposals.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Donna E. Hanbery

December 29, 1997